



The Energy Consortium

A non-profit Association of Industrial, Commercial and Institutional Energy Users

*24 Hastings Road
Lexington, MA 02421-6807
Phone/Fax: 781-862-0888*

By Hand

May 28, 2003

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
Commonwealth of Massachusetts
One South Station –2nd. Floor
Boston, MA 02110

Re: Investigation by the Department of Telecommunications and Energy on its own Motion
into the Provision of Default Service, D.T.E. 02-40-B
Follow-up Comments to Technical Session held May 15, 2003

Dear Secretary Cottrell,

The Energy Consortium (TEC) is a nonprofit association representing large C&I energy users in Massachusetts for over 31 years. It advocates positions that promote responsible use and reliable energy delivery at fair and reasonable rates for its members and all Massachusetts ratepayers. Its members continue to bare the effects of the retail electricity competitive market and Default Service (DS) pricing. Our member facilities have been subject to market pricing (however volatile) since 1998. In addition, as members built new facilities they paid default service until new contracts were in place. All new competitive supply pricing (for new facilities and facilities for which contracts expired) was benchmarked to default pricing that more closely followed market costs. TEC's is still concerned that the Order treats medium and large C&I separately from residential and small C&I customers.

In its order, the Department states for large C&Is, that a persuasive case can be made that utilities should procure default service from wholesale suppliers monthly for the reasons listed below:

1. Provide efficient price signals to customers because the resulting prices would track wholesale market price on a monthly basis.
2. Provide customers with an appropriate level of price certainty; and,
3. Provide customers appropriate protection from spot market price volatility.

As noted by the DTE during the technical session, the intent of the monthly pricing proposal was to reflect more accurately wholesale market prices and not intended to move large C&Is on Default Service to competitive supply. Whether a one-month or longer, the utility procured Default Service will still be advantageous for the customer over competitive supply due to the utility's strategic position of aggregating DS load (with poor power factors) and receiving a more favorable price than an individual large customer. TEC sees this continuing until the last large C&I customer leaves Default Service.

The purpose of this Technical Session was to discuss the proposition that a procurement term of one month is appropriate for medium and large customers. The Energy Consortium has always supported cost based rates and hopes that the DTE will see this as paramount in any proposed changes to current rates. We believe that the proposed one-month procurement proposal has both positive and negative aspects to it.

Pros

1. Cost based retail DS that gives current (monthly) price signal.
2. Further defines the role of the utility as the transportation provider only.
3. Supports correct allocation of costs.
4. Large customers, over 200KW, may find DS to their advantage if costs are allocated correctly

Cons

1. Increases utility and customer acquisition costs.
2. Removes longer term DS price signal (benchmark) for competitive supply comparison

Many speakers at the session felt that a one-month pricing option was too aggressive due to many factors (i.e., procurement, administration cost, notification requirements, etc.). Also, the monthly DS option will surely aggravate customers sufficiently to get their attention and move them whether intentionally or not to competitive supply. TEC clearly heard and understood that most utilities preferred and could live with a three-month procurement/retail pricing cycle.

A lingering question that needs resolution, not the subject of the session, is the allocation of costs (including all wholesale costs, LDC procurement costs, bad debt, regulatory compliance costs, communications, etc.) across the rate classes. The few medium and large C&I customers remaining on DS may be burdened with all the costs associated with Default Service procurement if not allocated properly.

Thank you for allowing TEC to speak and comment on this order.

Respectively submitted,

Roger Borghesani, Chairman
The Energy Consortium

CC: Jeanne Voveris, Hearing Officer
Barry Perlmutter, Senior Analyst